# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
# AND AFFILIATES

---

**Consolidated Financial Statements**
**For the Years Ended June 30, 2020 and 2019**

**Together with Independent Auditors' Report**

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Table of Contents
## For the Years Ended June 30, 2020 and 2019

**Page**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of
Habitat for Humanity of the Chesapeake, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Habitat for Humanity of the Chesapeake, Inc. and Affiliates (a Maryland nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of the Chesapeake, Inc. and Affiliates as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SC&H Attest Services, P.C.

November 20, 2020

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
# AND AFFILIATES

## Consolidated Statements of Financial Position

| *As of June 30,* | | *2020* | | *2019* |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ | 5,450,356 | $ | 1,604,833 |
| Contributions receivable - current portion | | 916,717 | | 791,581 |
| Mortgages receivable - current portion | | 635,889 | | 705,997 |
| Accounts receivable | | 270,691 | | 262,637 |
| Grants receivable | | 123,092 | | 101,300 |
| Inventory of homes | | 3,519,953 | | 4,083,794 |
| ReStore inventory | | 67,754 | | 68,190 |
| Prepaid expenses | | 105,523 | | 97,590 |
| Total Current Assets | | 11,089,975 | | 7,715,922 |
| Property and equipment, net | | 1,107,663 | | 1,101,376 |
| Long-term contributions receivable, net | | 393,541 | | 663,202 |
| Long-term mortgages receivable, net | | 5,011,049 | | 5,386,348 |
| Leveraged mortgages receivable, net | | 6,914,911 | | 7,609,837 |
| Capitalized interest on leveraged mortgages receivable | | 3,528,008 | | 3,540,104 |
| Investment in limited liability company | | - | | 4,654,113 |
| Prepaid interest | | 186,079 | | 218,563 |
| Deposits | | 46,499 | | 51,499 |
| Total Assets | $ | 28,277,725 | $ | 30,940,964 |
| Liabilities and Net Assets | | | | |
| Current Liabilities | | | | |
| Lines of credit and notes payable - current portion | $ | 344,222 | $ | 1,429,120 |
| Accounts payable and accrued liabilities | | 553,553 | | 667,872 |
| Deferred rent - current portion | | 12,265 | | 32,906 |
| Total Current Liabilities | | 910,040 | | 2,129,898 |
| Non-Current Liabilities | | | | |
| Lines of credit and notes payable - net of current portion | | 4,061,308 | | 3,823,519 |
| Notes payable - related parties | | - | | 5,114,482 |
| Leveraged mortgages receivable liability | | 6,914,911 | | 7,609,837 |
| Deferred rent - net of current portion | | 130,652 | | 89,970 |
| Deferred revenue | | 750 | | 5,990 |
| Total Liabilities | | 12,017,661 | | 18,773,696 |
| Commitments and Contingencies (Notes 15 and 19) | | | | |
| Net Assets | | | | |
| Without donor restrictions | | 15,237,143 | | 11,165,723 |
| With donor restrictions | | 1,022,921 | | 1,001,545 |
| Total Net Assets | | 16,260,064 | | 12,167,268 |
| Total Liabilities and Net Assets | $ | 28,277,725 | $ | 30,940,964 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
# AND AFFILIATES

## Consolidated Statements of Activities

| *For the Years Ended June 30,* | *2020* | | | *2019* | | |
|---|---|---|---|---|---|---|
| | *Without Donor Restrictions* | *With Donor Restrictions* | *Total* | *Without Donor Restrictions* | *With Donor Restrictions* | *Total* |
| Revenues, Gains and Other Support | | | | | | |
| Contributions | $ 5,655,534 | $ 1,961,270 | $ 7,616,804 | $ 1,630,443 | $ 1,790,500 | $ 3,420,943 |
| Donated assets and services | 208,427 | - | 208,427 | 158,093 | - | 158,093 |
| Government grants | 553,066 | - | 553,066 | 1,389,960 | 14,889 | 1,404,849 |
| Real estate sales | 1,348,464 | - | 1,348,464 | 1,901,736 | - | 1,901,736 |
| ReStore income | 3,000,307 | - | 3,000,307 | 3,649,580 | - | 3,649,580 |
| Special events, net of expense of $20,244 and $29,831, respectively | (17,744) | - | (17,744) | 38,869 | - | 38,869 |
| Miscellaneous income | 18,741 | - | 18,741 | 9,506 | - | 9,506 |
| Amortization of mortgage discounts | 308,074 | - | 308,074 | 340,829 | - | 340,829 |
| Paycheck Protection Program Contribution Revenue (Note 10) | 629,869 | - | 629,869 | - | - | - |
| Satisfaction of program restrictions | 1,275,409 | (1,275,409) | - | 1,922,974 | (1,922,974) | - |
| Satisfaction of time restrictions | 664,485 | (664,485) | - | 151,025 | (151,025) | - |
| Total Revenues, Gains, and Other Support | 13,644,632 | 21,376 | 13,666,008 | 11,193,015 | (268,610) | 10,924,405 |
| Expenses | | | | | | |
| Program services | | | | | | |
| House construction | 4,764,053 | - | 4,764,053 | 5,637,596 | - | 5,637,596 |
| ReStore services | 3,031,441 | - | 3,031,441 | 3,262,641 | - | 3,262,641 |
| Support services | | | | | | |
| Management and general | 1,442,126 | - | 1,442,126 | 1,333,555 | - | 1,333,555 |
| Fundraising | 500,440 | - | 500,440 | 592,855 | - | 592,855 |
| Total Expenses | 9,738,060 | - | 9,738,060 | 10,826,647 | - | 10,826,647 |
| Excess (Deficit) of Revenues, Gains, and Other Support over Expenses | 3,906,572 | 21,376 | 3,927,948 | 366,368 | (268,610) | 97,758 |
| Other Changes in Net Assets | | | | | | |
| Investment income (loss) from a limited liability company | (318,947) | - | (318,947) | 26,701 | - | 26,701 |
| Debt forgiveness - notes payable | - | - | - | 73,125 | - | 73,125 |
| Debt forgiveness - notes payable, related parties (Note 5) | 779,316 | - | 779,316 | - | - | - |
| Gain (loss) on the sales of homes | (295,521) | - | (295,521) | 6,729 | - | 6,729 |
| Total Other Changes in Net Assets | 164,848 | - | 164,848 | 106,555 | - | 106,555 |
| Change in Net Assets | 4,071,420 | 21,376 | 4,092,796 | 472,923 | (268,610) | 204,313 |
| Net Assets, beginning of year | 11,165,723 | 1,001,545 | 12,167,268 | 10,692,800 | 1,270,155 | 11,962,955 |
| Net Assets, end of year | $ 15,237,143 | $ 1,022,921 | $ 16,260,064 | $ 11,165,723 | $ 1,001,545 | $ 12,167,268 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
# AND AFFILIATES

## Consolidated Statements of Functional Expenses

| *For the Years Ended June 30,* | *2020* | | | | | *2019* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Program Services*** | | ***Supporting Services*** | | | ***Program Services*** | | ***Supporting Services*** | | |
| | *House Construction* | *ReStore Services* | *Management and General* | *Fundraising* | *Total* | *House Construction* | *ReStore Services* | *Management and General* | *Fundraising* | *Total* |
| Advertising | $ 89,806 | $ 14,367 | $ - | $ 121,362 | $ 225,535 | $ 85,649 | $ 22,971 | $ 997 | $ 135,008 | $ 244,625 |
| Amortization of capitalized interest | 155,799 | - | - | - | 155,799 | 148,976 | - | - | - | 148,976 |
| Bad debt expense | - | - | 22,000 | - | 22,000 | - | - | - | 12,071 | 12,071 |
| Computer and software maintenance | 23,577 | 6,396 | 11,471 | 32,922 | 74,366 | 27,250 | 5,291 | 11,021 | 33,542 | 77,104 |
| Conference/training expenses | 10,813 | 1,000 | 9,652 | 1,461 | 22,926 | 18,910 | 3,763 | 6,658 | 1,014 | 30,345 |
| Construction and rehabilitation costs on houses sold and settled | 1,477,473 | - | - | - | 1,477,473 | 2,567,541 | - | - | - | 2,567,541 |
| Depreciation and amortization expense | 38,580 | 93,589 | 51,201 | 5,825 | 189,195 | 21,280 | 64,873 | 37,727 | 5,823 | 129,703 |
| Discounts of mortgages receivable | 53,936 | - | - | - | 53,936 | 65,500 | - | - | - | 65,500 |
| Dues and subscriptions | 5,503 | 7,650 | 1,368 | 1,008 | 15,529 | 6,039 | 11,058 | 2,785 | 1,093 | 20,975 |
| Employee benefits | 159,424 | 291,827 | 63,499 | 27,021 | 541,771 | 136,432 | 255,810 | 68,216 | 22,739 | 483,197 |
| Habitat for Humanity International tithe | 10,000 | - | - | - | 10,000 | 20,000 | - | - | - | 20,000 |
| Homeownership | 211,833 | - | - | - | 211,833 | 129,391 | - | - | - | 129,391 |
| Insurance | 6,047 | 20,628 | 2,409 | 1,025 | 30,109 | 5,603 | 25,048 | 2,802 | 934 | 34,387 |
| Interest expense | 103,591 | 3,021 | 29,110 | - | 135,722 | 53,353 | 6,049 | 106,887 | 69 | 166,358 |
| Impairment on inventory of homes | 1,171,443 | - | - | - | 1,171,443 | 1,009,442 | - | - | - | 1,009,442 |
| Meals and entertainment | 25,370 | 10,152 | 19,245 | 6,271 | 61,038 | 32,778 | 12,337 | 31,659 | 9,298 | 86,072 |
| Miscellaneous expense | 2,582 | 1,284 | 359 | - | 4,225 | 7,370 | 12,393 | 1,484 | 946 | 22,193 |
| Office administration and supplies | 32,922 | 60,265 | 13,113 | 5,580 | 111,880 | 37,730 | 70,744 | 18,865 | 6,288 | 133,627 |
| Postage | 1,933 | 3,539 | 770 | 328 | 6,570 | 3,022 | 5,667 | 1,511 | 504 | 10,704 |
| Printing and production | 8,003 | 14,650 | 3,188 | 1,356 | 27,197 | 9,206 | 17,260 | 4,603 | 1,534 | 32,603 |
| Professional fees | 45,009 | 64,191 | 88,153 | 5,891 | 203,244 | 25,777 | 62,865 | 158,754 | 8,380 | 255,776 |
| Purchased merchandise | - | 214,755 | - | - | 214,755 | - | 252,580 | - | - | 252,580 |
| Remediation of houses previously sold | 9,789 | - | - | - | 9,789 | 16,067 | - | - | - | 16,067 |
| Rent | 96,785 | 763,138 | 38,550 | 16,404 | 914,877 | 102,966 | 690,553 | 51,483 | 17,161 | 862,163 |
| Repair and renew | 13,198 | - | - | - | 13,198 | 97,304 | - | - | - | 97,304 |
| Repairs and maintenance | 23,521 | 84,159 | 9,368 | 3,987 | 121,035 | 18,038 | 86,000 | 28,458 | - | 132,496 |
| Salaries | 869,625 | 1,028,739 | 1,031,141 | 247,456 | 3,176,961 | 871,060 | 1,236,179 | 737,999 | 313,686 | 3,158,924 |
| Taxes - other | 1,027 | 13,975 | 780 | - | 15,782 | - | 14,072 | 600 | - | 14,672 |
| Taxes - payroll | 77,048 | 141,036 | 30,688 | 13,059 | 261,831 | 69,789 | 130,854 | 34,894 | 11,631 | 247,168 |
| Telephone | 23,453 | 42,932 | 9,342 | 3,975 | 79,702 | 26,228 | 49,177 | 13,114 | 4,371 | 92,890 |
| Travel | 2,433 | 2,707 | 1,449 | 3,266 | 9,855 | 6,227 | 3,762 | 5,260 | 4,170 | 19,419 |
| Truck expenses | - | 87,125 | - | - | 87,125 | - | 156,013 | - | - | 156,013 |
| Utilities | 13,231 | 56,662 | 5,270 | 2,243 | 77,406 | 15,556 | 62,465 | 7,778 | 2,593 | 88,392 |
| Volunteers | 299 | 3,654 | - | - | 3,953 | 3,112 | 4,857 | - | - | 7,969 |
| Total Expenses | $ 4,764,053 | $ 3,031,441 | $ 1,442,126 | $ 500,440 | $ 9,738,060 | $ 5,637,596 | $ 3,262,641 | $ 1,333,555 | $ 592,855 | $ 10,826,647 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
# AND AFFILIATES

## Consolidated Statements of Cash Flows

| *For the Years Ended June 30,* | *2020* | *2019* |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Change in net assets | $ 4,092,796 | $ 204,313 |
| Adjustments to reconcile change in net assets | | |
| to net cash and cash equivalents (used in) provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 189,195 | 129,703 |
| Amortization of prepaid interest | 32,484 | 28,160 |
| Amortization of deferred financing costs | 3,463 | 3,463 |
| Amortization of capitalized interest on leveraged mortgages receivable | 152,336 | 145,513 |
| Amortization of investment in a limited liability company (Note 5) | 341,328 | 85,287 |
| Debt forgiveness - notes payable, related parties (Note 5) | (779,316) | - |
| Capitalized interest from leveraged mortgages receivable | (140,240) | (224,358) |
| Impairment on inventory of homes | 1,171,443 | 1,009,442 |
| Bad debt expense | 22,000 | 12,071 |
| Change in present value discount on contributions receivable | (15,589) | 1,147 |
| Mortgages receivable discount expense | 53,936 | 65,500 |
| Amortization of mortgage discounts | (308,074) | (340,829) |
| Effects of changes in operating assets and liabilities: | | |
| Contributions receivable | 138,114 | (396,697) |
| Accounts receivable | (8,054) | (2,916) |
| Grants receivable | (21,792) | 16,999 |
| Inventory of homes | (607,602) | (448,127) |
| ReStore inventory | 436 | (10,305) |
| Prepaid expenses | (7,933) | (33,770) |
| Accounts payable and accrued liabilities | (114,319) | (105,509) |
| Deferred rent | 20,041 | 10,480 |
| Deferred revenue | (5,240) | (84,305) |
| Net Cash and Cash Equivalents Provided by Operating Activities | 4,209,413 | 65,262 |
| Cash Flows from Investing Activities | | |
| Acquisition of property and equipment | (195,482) | (405,800) |
| Changes in equity in investments in a limited liability company (Note 5) | (22,381) | (111,988) |
| Origination and acquisition of mortgages receivable, net | (42,821) | (16,094) |
| Principal payments collected on mortgages receivable | 742,366 | 632,904 |
| Increase (decrease) in deposits | 5,000 | (3,170) |
| Net Cash and Cash Equivalents Provided by Investing Activities | 486,682 | 95,852 |
| Cash Flows from Financing Activities | | |
| Proceeds from lines of credit and notes payable | 1,629,869 | 1,039,855 |
| Payment of deferred financing cost | (11,980) | - |
| Payments on lines of credit and notes payable | (2,468,461) | (1,867,636) |
| Net Cash and Cash Equivalents Used in Financing Activities | (850,572) | (827,781) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 3,845,523 | (666,667) |
| Cash and Cash Equivalents, beginning of year | 1,604,833 | 2,271,500 |
| Cash and Cash Equivalents, end of year | $ 5,450,356 | $ 1,604,833 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | $ 160,361 | $ 157,968 |
| Settlement costs | $ 64,348 | $ 101,840 |
| Increase (decrease) in leveraged mortgages receivable, net | $ (694,926) | $ 89,554 |
| Cash received on foreclosed homes or deeds in lieu | $ 100 | $ 126,235 |
| Debt forgiveness, net (Note 8) | $ 5,114,482 | $ 73,125 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of the Organization

Habitat for Humanity of the Chesapeake, Inc. and Affiliates (the Organization) is composed of Habitat for Humanity of the Chesapeake, Inc. (Habitat), JLR Investments LLC (JLR), Habitat for Humanity of the Chesapeake CHDO, LLC (Chesapeake CHDO), Chesapeake Funding Company I, LLC (Chesapeake Funding) and BOTF, Inc. (BOTF).

Habitat was incorporated under the laws of the state of Maryland in 1982 and has been recognized by the Internal Revenue Service (IRS) as a not-for-profit, tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code (IRC) that is publicly supported and, therefore, not a private foundation.

JLR is a limited liability company created by Habitat that was incorporated in Maryland in 2005. Habitat is the sole member of JLR. JLR was formed to own, operate, lease and sell real property, including certain property located in Baltimore, Maryland together with all improvements thereon.

Chesapeake CHDO is a limited liability company formed for charitable purposes, including assisting community organizations in the planning and managing of housing and economic development projects and providing decent housing that is affordable to low and moderate income people, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Section 50l(c)(3) of the IRC. Habitat is the sole member of Chesapeake CHDO.

Chesapeake Funding is a limited liability company formed for the purpose of holding certain real estate investment portfolios, and to do any and all things necessary, convenient or incidental to that purpose. Habitat is the sole member of Chesapeake Funding.

BOTF was incorporated in Maryland in 2013 and has been recognized by the IRS as a not-for-profit, tax-exempt organization as defined by Section 501(c)(2) of the IRC. BOTF was formed to hold title to the building housing the Sandtown ReStore on behalf of and for the exclusive benefit of Sandtown Habitat for Humanity, Inc. (Sandtown) and is consolidated as a result of Habitat's merger with Sandtown. Effective September 30, 2014, Habitat entered into an Articles of Merger with Sandtown, which provided similar services to the Organization in the Sandtown area of Baltimore. Upon merging, the Organization recognized all identifiable assets and liabilities acquired at their fair value at the date of acquisition. Any difference between the fair value of the assets and liabilities acquired was recognized in the consolidated statement of activities as contribution from merger.

The Organization is a Christian organization, unaffiliated with any denomination, that aims to demonstrate the Christian gospel by working to establish affordable housing and decent habitat through the acquisition and rehabilitation of homes for those that are in need in Anne Arundel County, Baltimore City, Baltimore County and Howard County. The Organization is supported primarily through contributions, home sponsorships, government grants, real estate sales, ReStore sales and donated goods and services.

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.**

**Description of the Organization – cont'd.**

The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations.

The Organization operates six Habitat for Humanity ReStores (the ReStores). The ReStores are retail operations, where home furnishings, appliances, and other miscellaneous items are donated or purchased and then sold to the community at a greatly reduced price.

**Principles of Consolidation**

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidations*, the accompanying consolidated financial statements include the accounts of Habitat, and those of its affiliates, which consist of JLR, Chesapeake CHDO, Chesapeake Funding, and BOTF. Habitat is the sole member of its affiliates. All intercompany transactions and balances have been eliminated in consolidation.

**Basis of Accounting**

The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

The consolidated financial statement presentation is in accordance with the requirements of FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements.* Under ASC 958-205, the Organization is required to report information regarding its consolidated financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

*Without Donor Restrictions* - Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions. Contributions with donor-imposed restrictions that are met in the same reporting period that the contribution is received are reported as net assets without donor restrictions.

*With Donor Restrictions* - Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Net assets may be donor restricted for various purposes, such as use in future periods or use for specified purposes. When a donor restriction expires by the passage of time or by satisfying restrictions through actions of the Organization, the net assets with donor restrictions are released to net assets without donor restrictions. Net assets subject to donor restrictions to be maintained permanently by the Organization would be included in this net asset class, however, the Organization has no such net assets as of June 30, 2020 and 2019.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

### Program Services

Program services encompass activities directly and indirectly related to establishing affordable and decent housing through acquisition, rehabilitation, sale of homes, and retail operations. Program service expenses are included in house construction or ReStore services on the accompanying consolidated statements of activities.

### Management and General

Management and general services are those related to operating and managing the Organization and its programs on a day to day basis. The Organization's management and general services consist of activities not directly related to the programs for which the Organization exists, including all activities related to the Organization's internal management and accounting for program services.

### Fundraising

Fundraising consists of activities performed either directly or indirectly to induce contributions, which will be utilized to enhance the program service activities and related management and general activities.

### Functional Allocation of Expenses

The costs of providing the Organization's various programs and other activities have been presented in the consolidated statements of functional expenses. The Organization incurs certain expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting activities. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis. Select overhead accounts are allocated based upon the percentage of Full-Time Employees (FTEs) per department. Employee benefits and payroll taxes are allocated based upon percentage of salary costs. All other entries are department specific and initial general ledger entries are made to that effect.

### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase.

### Credit Risk

The Organization maintains cash and cash equivalents at several financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. The Organization periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.**

**Investment in Limited Liability Company**

The Organization had an investment in a limited liability company (LLC) in which it owned more than 20% of the entity. This investment was accounted for under the equity method. Under the equity method, the initial investment was recorded at cost and the Organization's share of the subsequent earnings or losses of the LLC was recognized in investment income (loss) in the accompanying consolidated statement of activities. The LLC terminated during the year ended June 30, 2020 (Note 5).

**Contributions**

Contributions are recognized when a donor makes an unconditional promise to transfer assets to the Organization. Contributions received are recorded at fair value on the date of the gift and are recorded as contributions with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Grant revenue is considered a conditional gift and is recognized as program or other expenses are incurred satisfying the conditions of the grant.

**Contributions Receivable**

Contributions receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. In accordance with ASC 958-310, *Not-for-Profit Entities: Receivables*, pledges due in one or more years are discounted to their net present value at the time the revenue is recorded. The Organization uses the allowance method to determine the reserve for uncollectible pledges receivable. The allowance is based on historical experience and management's analysis of specific promises made. As of June 30, 2020 and 2019, the Organization had unconditional promises to give, all of which management considered to be fully collectible, totaling $1,311,541 and $1,471,655, respectively. Contributions receivable includes amounts receivable in more than one year in the amount of $394,824 and $680,074 as of June 30, 2020 and 2019, respectively, which are recorded as contributions with donor restrictions. Contributions receivable are discounted for the time value of money using the IRS long term annual applicable federal rate at the date of the promise, which was 0.29% and 1.76% as of June 30, 2020 and 2019. As of June 30, 2020 and 2019, discounts on contributions receivable totaled $1,283 and $16,872, respectively.

At June 30, 2020, the anticipated receipts of contributions receivable are as follows:

| For the years ended June 30,: | |
|---|---|
| 2021 | $ 916,717 |
| 2022 | 353,110 |
| 2023 | 36,914 |
| 2024 | 2,400 |
| 2025 | 2,400 |
| Total | 1,311,541 |
| Less: present value discount | (1,283) |
| Contributions receivable, net | $ 1,310,258 |

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.**

**Mortgages Receivable**

Mortgages receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments, with original maturities ranging from 20 to 30 years. All of the mortgages are related to new construction and the rehabilitation of existing homes rehabilitated by the Organization. These mortgages are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, ranging from 1.65% to 2.13% as of June 30, 2020 and from 2.59% to 2.88% as of June 30, 2019. Amortization revenue is recorded using the straight-line method over the lives of the mortgages.

The Organization is a secured creditor. Management therefore records a provision for loan losses at the time that it is determined that the mortgage balance exceeds the fair market value of the related home. Management has not provided a provision for loan losses as of June 30, 2020 and 2019 because the fair market value of the homes exceeds the related mortgage balances.

The Organization has pledged some of the mortgage loans as collateral for lines of credit and notes payable (Note 9).

In addition to the mortgages receivable included in the consolidated statements of financial position, the Organization also holds non-interest bearing second, third and fourth mortgages. These mortgages originate at the same time as the first mortgage and reflect the difference between the sales price and the fair market value of the house. These mortgages are legal documents executed for protection against homeowners who may sell their house for a profit before the mortgage is repaid and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage. These mortgages are not included on the consolidated statements of financial position based on FASB ASC 450, *Contingencies,* which relates to gain contingencies. Since these mortgages are contingent receivables, they are not recorded in the consolidated financial statements because there is a significant uncertainty that they will be exercised and collected.

**Leveraged Mortgages Receivable**

When a mortgage receivable is leveraged, the Organization receives a discounted cash amount in exchange for the transfer of the mortgage receivable to a bank. Under these agreements, the Organization is liable to repurchase or replace a mortgage transferred to the bank in the event that the homeowner does not make the required payments. In accordance with ASC 805 through 860, *Broad Transactions*, the leveraging of the mortgage receivable with a conditional obligation to repurchase or replace the mortgage is not considered a sale.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

**Leveraged Mortgages Receivable – cont'd.**

The leveraged mortgages receivable are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, ranging from 1.37% to 2.29% as of June 30, 2020 and from 2.97% to 3.14% as of June 30, 2019. The difference between the cash received and the gross mortgage receivable transferred is recorded as capitalized interest on leveraged mortgages receivable in the consolidated statements of financial position. The capitalized interest on leveraged mortgages receivable is amortized over the term of the leveraged mortgage receivable using the straight-line method. The liability in the event that the homeowner does not make the required payments is included in the consolidated statements of financial position as a leveraged mortgages receivable liability, carried at fair market value.

**Inventory of Homes**

Inventory of homes consists of houses and lots purchased by or donated to the Organization for rehabilitation and resale and the cost of homes that are under construction. Donated properties, materials, and services relating to the homes are recognized at fair market value as of the date of the donation. The houses and lots are valued at net realizable value. Impairment on the inventory of homes totaling $1,171,443 and $1,009,442 is included in house construction expenses in the consolidated statements of activities for the years ended June 30, 2020 and 2019, respectively. When homes are sold the related costs and impairments are removed by recording construction and rehabilitation costs on houses sold and settled.

**Property and Equipment**

Property and equipment is stated at cost. The Organization capitalizes all costs that are in excess of $1,000 and have a useful life of at least one year. Expenditures for maintenance, repairs and renewals are charged against income as incurred. Expenditures for additions, improvements and replacements are added to the property and equipment accounts and depreciated over their useful lives. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts, and any gain or loss on disposition is recognized in the consolidated statements of activities.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for respective assets are as follows:

| | Years |
|---|---|
| Buildings | 40 |
| Furniture, fixtures and equipment | 5 |
| Equipment | 5 |
| Vehicles | 5 |
| Computer equipment | 3 |

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

### Property and Equipment – cont'd.

Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the life of the lease. Depreciation and amortization expense totaled $189,195 and $129,703 for the years ended June 30, 2020 and 2019, respectively.

### Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. As of June 30, 2020 and 2019, the Organization had no assets held for disposal.

### Warranties

The Organization provides homeowner warranties on the homes it rehabilitates and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. No accruals were considered necessary as of June 30, 2020 and 2019.

### Deferred Financing Costs and Amortization

Deferred financing costs are presented as a contra-account to the mortgage liability and are amortized over the period the obligation is outstanding using the straight-line method. Interest from deferred financing costs charged to operations totaled $3,463 for each of the years ended June 30, 2020 and 2019.

### Donated Services

Donated services meeting the requirements for recognition in the consolidated financial statements and donated materials are included in support and expense at their estimated fair values on the date they were contributed. The requirements for recognition of donated services in the consolidated financial statements are (a) the donated services create or enhance non-financial assets, or (b) the donated services require special skills, are provided by individuals who possess those special skills and donated services would typically be purchased by the Organization if they had not been provided by contribution.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

### Donated ReStore Items

Donations of ReStore items are not valued, nor is an inventory of such items used for financial reporting. This accounting treatment is based on ASC 958, *Contributions Received*, where a major uncertainty about the existence of value may indicate that an item received or given should not be recognized. ASC 845, *Initial Measurement*, also applies that fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value. Revenue from donated ReStore inventory is recognized when the inventory is sold.

### ReStore Inventory

ReStore inventory consists of purchased merchandise to be sold in the ReStores and is valued at the lower of cost or net realizable value. This accounting treatment is based on ASC 330, *Inventory*, where net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

### Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the IRC and is not considered a private foundation. All of the ReStores' activities are classified as exempt activities since sales of purchased merchandise are less than 15% of the ReStores' total sales. ReStore's activities are not subject to the tax on unrelated business income. JLR, Chesapeake CHDO and Chesapeake Funding are disregarded entities for tax purposes. Therefore, they do not generate taxable income. BOTF is exempt from Federal and State income taxes under Section 501(c)(2) of the IRC.

ASC 740, *Income Taxes*, prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties, and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. The Organization has considered its income tax positions, including any positions that may be considered uncertain by the relevant tax authorities in the jurisdictions in which the Organization operates. As of June 30, 2020 and 2019, the Organization had no uncertain tax positions.

The Organization recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Organization does not have any amounts accrued relating to interest and penalties as of June 30, 2020 and 2019. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress.

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

**Revenue from Exchange Transactions**

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, revenue is recognized when a customer obtains control of promised goods or services (performance obligation) in an amount that reflects the consideration the Organization expects to receive in exchange for those goods or services (transaction price). The Organization's exchange revenue is primarily derived from the sale of ReStore merchandise and real estate income. Revenue is recorded net of discounts and similar charges. Sales and other tax amounts collected for remittance to governmental authorities are excluded from revenue.

ReStore income is generated through the sale of home furnishings, appliances, and other miscellaneous items that are donated or purchased and then sold at a reduced price. The transaction price is a fixed amount set by the Organization, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied.

Real estate income is generated through home sales. The homes are originally held as inventory, under the House construction program, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied. The transaction price is based on the appraised value of the home that is agreed upon the entering of a contract of sale.

**Recently Adopted Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 and most industry-specific guidance throughout the Industry Topics in the ASC. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization implemented ASU 2014-09 during the year ended June 30, 2020. The adoption of this new standard did not have a material impact on the timing of the Organization's revenue recognition. There was no effect on net assets or changes in net assets as a result of the adoption of ASU 2014-09.

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

**Recently Adopted Accounting Pronouncements – cont'd.**

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and accounting guidance for contributions. ASU 2018-08 clarifies whether certain transactions should be characterized as contributions (nonreciprocal transactions) within the scope of Topic 958-605 or as exchange (reciprocal) transactions subject to other guidance such as Topic 606, *Revenue from Contracts with Customers*. The ASU provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Organization implemented the ASU during the year ended June 30, 2020. The adoption of the new standard did not have a material impact on the accompanying consolidated financial statements. There was no effect on net assets or changes in net assets as a result of the adoption of ASU 2018-08.

**Recently Issued Accounting Pronouncement**

The FASB issued ASU 2016-02, *Leases (Topic 842*), the distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. In June 2020, the FASB deferred the effective date of the lease guidance for non-public entities to fiscal years beginning after December 15, 2021. Management has elected not to early adopt ASU 2016-02 and will assess the impact on future financial statements.

**Subsequent Events**

The Organization evaluated for disclosure any subsequent events through November 20, 2020, the date on which the consolidated financial statements were available to be issued, and determined that there were no material events that warrant disclosure, except as disclosed in Notes 9 and 15.

### 2. MORTGAGES RECEIVABLE

The Organization directly finances a number of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. The Organization discounts the mortgages using the current interest rates at the time the home is sold. The discounts are amortized using the straight-line method over the lives of the mortgages.

## 2. MORTGAGES RECEIVABLE – cont'd.

Mortgages receivable as of June 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Mortgages receivable | $ 9,044,554 | $ 9,748,232 |
| Less: discount on mortgages | (3,397,616) | (3,655,887) |
| Mortgages receivable, net | $ 5,646,938 | $ 6,092,345 |

At June 30, 2020, the balances due on the mortgages, excluding those that have been leveraged, are scheduled to be received as follows:

| For the years ended June 30,: | |
|---|---|
| 2021 | $ 635,889 |
| 2022 | 642,987 |
| 2023 | 566,068 |
| 2024 | 518,097 |
| 2025 | 485,410 |
| Thereafter | 6,196,103 |
| Total | $ 9,044,554 |

## 3. LEVERAGED MORTGAGES RECEIVABLE

The Organization leverages mortgages receivable to banks. Leveraged mortgages receivable as of June 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Leveraged mortgages receivable | $ 10,620,221 | $ 11,823,226 |
| Less: discount on leveraged mortgages | (3,705,310) | (4,213,389) |
| Leveraged mortgages receivable, net | $ 6,914,911 | $ 7,609,837 |

## 4. FAIR VALUE MEASUREMENT

ASC 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets to which the Organization has the ability to access.

**4. FAIR VALUE MEASUREMENT– cont'd.**

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

*Leveraged mortgages receivable liability:* Valued at the carrying amount of the related leveraged mortgage receivable asset which approximates the value of the replacement mortgage to be transferred to the bank in the event that the homeowner does not make the required payments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of June 30, 2020 and 2019.

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2020:

| | Level 1: | Level 2: | Level 3: | Total |
|---|---|---|---|---|
| Leveraged mortgages receivable liability | $ - | $ 6,914,911 | $ - | $ 6,914,911 |

**4. FAIR VALUE MEASUREMENT– cont'd.**

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2019:

| | Level 1: | Level 2: | Level 3: | Total |
|---|---|---|---|---|
| Leveraged mortgages receivable liability | $ - | $ 7,609,837 | $ - | $ 7,609,837 |

**5. INVESTMENT IN A LIMITED LIABILITY COMPANY**

The investment in a limited liability company on the consolidated statements of financial position included an investment from participating in one New Market Tax Credit (NMTC) Program. NMTC program provides funds to eligible organizations for investments in "qualified low-income community investment." Program compliance requirements include creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met by the CDE over a seven-year period. Details of the transactions follow.

*Habitat Harbor Leverage, LLC (Habitat Affiliate 3)*

In 2013, the Organization invested, along with 2 other nonprofit organizations, in Habitat Affiliate 3 with 50.92% ownership, to take advantage of NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability.

Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional 18.74% ownership in Habitat Affiliate 3. This investment was carried at fair market value, as it was acquired through a merger, and was netted against the related note (see Note 8) for the consolidated financial statement purposes. During the year ended June 30, 2020, in connection with the debt forgiveness, the investment was written off (Note 8). The fair value was deemed to be $0 as of June 30, 2019.

The Organization invested $4,469,199 with Habitat Affiliate 3 and was able to secure a 15-year loan in the amount of $5,114,482 payable to Harbor Community Fund VI LLC (CDE) (a subsidiary of Habitat Affiliate 3). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions. During the year ended June 30, 2020, in connection with the debt forgiveness, the investment was written off (Note 8).

**5. INVESTMENT IN A LIMITED LIABILITY COMPANY – cont'd.**

The following is a summary of the activity for Habitat Affiliate 3 for the years ending June 30,:

| | 2020 | 2019 |
|---|---|---|
| Beginning balance | $ 4,654,113 | $ 4,627,412 |
| Investment activity | (4,654,113) | 26,701 |
| Ending balance | $ - | $ 4,654,113 |

The following is the condensed financial information of Habitat Affiliate 3 as of and for the years ended June 30,:

| | 2020 | 2019 |
|---|---|---|
| Cash | $ - | $ 961,212 |
| Note receivable | - | 7,513,354 |
| Total assets | $ - | $ 8,474,566 |
| Equity | $ - | $ 8,474,566 |
| Revenue and net income | $ 1,719,349 | $ 239,046 |

Investment income and debt forgiveness is summarized below for the year ended June 30, 2020:

| | |
|---|---|
| Income | |
| Distribution | $ 30,426 |
| Interest | 6,922 |
| Total income | 37,348 |
| Expense | |
| QLICI interest | 14,967 |
| Amortization | 341,328 |
| Total expense | 356,295 |
| Total investment income from limited liability company | $ (318,947) |
| Debt forgiveness - notes payable, related parties, net | $ 779,316 |

### 5. INVESTMENT IN A LIMITED LIABILITY COMPANY – cont'd.

Investment income is summarized below for the year ended June 30, 2019:

| | |
|---|---|
| Income | |
| Distribution | $ 121,718 |
| Interest | 27,688 |
| Total income | 149,406 |
| Expense | |
| QLICI interest | 37,418 |
| Amortization | 85,287 |
| Total expense | 122,705 |
| Total investment income from limited liability companies | $ 26,701 |

### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

| | 2020 | 2019 |
|---|---|---|
| Land and buildings | $ 626,140 | $ 626,140 |
| Furniture, fixtures and equipment | 114,685 | 97,709 |
| Leasehold improvements | 529,404 | 479,349 |
| Vehicles | 673,474 | 574,248 |
| Computer equipment | 340,881 | 311,656 |
| | 2,284,584 | 2,089,102 |
| Less: accumulated depreciation | (1,176,921) | (987,726) |
| Property and equipment, net | $ 1,107,663 | $ 1,101,376 |

### 7. DEFERRED RENT

The Organization's lease agreements for its main office and for its Dundalk, Columbia, Glen Burnie, and Timonium ReStore buildings have provisions for rent payments with fixed annual increases. In accordance with ASC 840, *Leases*, the total rent commitment is expensed on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for consolidated financial statement purposes is recorded as deferred rent.

Future amortization of deferred rent is as follows:

| For the years ending June 30,: | | |
|---|---|---|
| 2021 | $ | 12,265 |
| 2022 | | 20,101 |
| 2023 | | 32,676 |
| 2024 | | 28,185 |
| 2025 | | 49,690 |
| Total | $ | 142,917 |

### 8. NOTES PAYABLE, RELATED PARTIES

During 2013, in connection with the investment in Habitat Affiliate 3, the Organization received a $5,114,482 note from Harbor Community Fund VI, LLC (a related party). The note required interest only payments at 0.73%. The note was secured by substantially all the assets acquired by the Organization from the project loan proceeds. The put option feature for the note was exercised on September 24, 2019, and the debt was forgiven in full. Debt forgiveness – notes payable, related parties, net of $779,316, is shown on the consolidated statements of activities for the year ended June 30, 2020, consisting of the debt forgiveness of $5,114,482, net of the $4,335,166 loss on investment in Habitat Affiliate 3 that occurred at the time that the put option was exercised.

Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional note payable in the amount of $1,882,483 due to Harbor Community Fund VI, LLC, subject to the same terms as the note from Harbor Community Fund VI, LLC, disclosed above. This note was carried at fair market value, as it was acquired through a merger, and was netted against the related investment for the consolidated financial statement purposes. The put option feature for the note was exercised on September 24, 2019. There was no debt forgiveness recorded for the year ended June 30, 2020 as the fair value was deemed to be $0 as of June 30, 2019.

Interest expense on the notes payable, related parties included in investment income from limited liability company on the consolidated statements of activities totaled $20,476 and $51,190 for the years ended June 30, 2020 and 2019, respectively.

## 9. LINES OF CREDIT AND NOTES PAYABLE

Lines of credit and notes payable consisted of the following as of June 30,:

| | 2020 | 2019 |
|---|---|---|
| M&T Bank Revolving Note | $ 200,000 | $ 200,000 |
| Severn Savings Bank Line of Credit | 1,588,286 | 1,939,286 |
| Neighborhood Housing Services of Baltimore, Inc. | 293,056 | 309,722 |
| Self-help Homeownership Opporunity Program | 2,113 | 13,759 |
| BOKF, NA dba Bank of Texas | 77,198 | 111,719 |
| PNC Community Development Company, LLC | 1,036,707 | 1,202,005 |
| CDFC, net | 31,681 | 74,401 |
| M&T Bank Notes | - | 314,019 |
| Rosedale Federal Savings and Loan Association | - | 971,347 |
| Small Business Administration Economic Disaster Relief Loan | 500,000 | - |
| Department of Housing and Community Development | 500,000 | - |
| Community Development Block Grant 42 | 216,750 | 148,125 |
| | 4,445,791 | 5,284,383 |
| Less: Unamortized deferred financing costs | (40,261) | (31,744) |
| Less: Current Portion of Lines of Credit and Notes Payable | (344,222) | (1,429,120) |
| Long Term Portion of Lines of Credit and Notes Payable | $ 4,061,308 | $ 3,823,519 |

Future minimum principal payments are as follows:

| For the years ending June 30,: | |
|---|---|
| 2021 | $ 344,222 |
| 2022 | 243,585 |
| 2023 | 242,283 |
| 2024 | 242,596 |
| 2025 | 242,918 |
| Thereafter | 2,913,437 |
| Total | $ 4,229,041 |

The future maturities table above is reduced by the $216,750 forgivable portion of the Community Development Block Grant 42 debt.

**9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.**

Interest expense on the lines of credit and notes payable totaled $101,452 and $131,703 for the years ended June 30, 2020 and 2019, respectively. In addition, the Organization paid interest of $46,752 and $85,759 for the years ending June 30, 2020 and 2019, respectively, which has been capitalized as part of inventory of homes on the consolidated statements of financial position.

**M&T Bank – Credit Line**

The Organization has a $50,000 credit line with M&T, bearing interest at the bank's prime rate plus 1.5%, (4.75% and 7.0% as of June 30, 2020 and 2019, respectively) and due on demand. The credit line is secured by all deposits or other sums credited by or due from M&T to the Organization, as well as any cash, securities, instruments or other property. There were no outstanding borrowings as of June 30, 2020 and 2019.

**M&T Bank – Revolving Note**

The Organization has a $200,000 revolving demand note with M&T, bearing interest at the bank's prime rate, (3.25% and 5.5% as of June 30, 2020 and 2019, respectively) and due on demand. The revolving demand note is secured by all deposits or other sums credited by or due from M&T to the Organization, as well as any cash, securities, instruments or other property.

**Severn Savings Bank Line of Credit**

The Organization has a $2,500,000 line of credit with Severn Savings Bank (Severn), bearing interest at 4.75%. The line of credit requires the Organization to make monthly principal payments of $10,000. In October 2020, the line of credit was amended to extend the maturity date to August 1, 2021 and the fixed interest rate changed to 4.25%. This line of credit is secured by mortgages receivable in the amount of $2,495,006 and $3,050,103 as of June 30, 2020 and 2019, respectively. This line of credit contains covenants with which the Organization must comply. As of June 30, 2020 and 2019, the Organization was in compliance with, or had received a waiver for, all covenants associated with this line of credit.

**Neighborhood Housing Services of Baltimore, Inc.**

The Organization has a note payable due to Neighborhood Housing Services of Baltimore, Inc. (NHS). The note is non-interest bearing and requires monthly principal payments of $1,389 and matures on January 31, 2038. This note is secured by 5 real estate properties.

**Self-help Homeownership Opportunity Program**

The Self-help Homeownership Opportunity Program (SHOP) notes payable to HFHI are non-interest bearing and unsecured. The note proceeds are used for building homes. These notes represent a 25% portion of the SHOP grants received as of June 30, 2020 and 2019, respectively, and are payable through 2021 in monthly installments of principal and interest.

**9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.**

**BOKF, NA dba Bank of Texas**

During 2013, the Organization obtained a note payable for $150,000 from BOKF, NA dba Bank of Texas, with 4.03% interest. The note required interest only payments for the first year followed by monthly payments of principal and interest in the amount of $2,768 until the maturity date of November 30, 2018. This note contained covenants with which the Organization was in compliance with during the year ended June 30, 2019. This loan was paid in full as of June 30, 2019.

During 2016, the Organization obtained two notes of $125,000 from BOKF, NA dba Bank of Texas, with 4.71% interest. The notes require monthly payments of principal and interest of $2,346 and mature July 15, 2021. As a result of the coronavirus outbreak (see Note 19), the Organization and BOKF, NA dba Bank of Texas agreed to extend the maturity date by ninety days to October 13, 2021. These notes contain financial covenants with which the Organization must comply. As of June 30, 2020 and 2019, the Organization was in compliance with all covenants associated with these notes.

**PNC Community Development Company, LLC**

During 2013, the Organization obtained a note payable for $1,847,867 from PNC Community Development Company, LLC. Proceeds from the note were $1,401,012. The note includes $186,079 and $218,563 of prepaid interest, at a rate of 2.75%, as of June 30, 2020 and 2019, respectively, and $30,000 of loan fees. The note is secured by approximately $993,697 and $1,109,427 of mortgages receivable as of June 30, 2020 and 2019, respectively, and requires monthly payments ranging from $89 to $8,800, based on a payment schedule that is based on the anticipated amounts to be received under those mortgages receivable. The note matures on July 15, 2038. On August 30, 2019, the note was amended for the inclusion of new mortgage loans, and the exclusion of released mortgage loans.

**CDFC, net**

During 2015, as part of the Sandtown merger, the Organization assumed notes payable to Baltimore Community Development Financing Corporation (CDFC). The notes are secured by mortgages receivable and are non-interest bearing with various maturity dates through 2021. The Organization imputed interest on these notes using a 4.25% discount rate at the date of the merger to approximate the fair market value of the liability. The notes are carried net of a discount of $0 and $1,606 as of June 30, 2020 and 2019, respectively.

**M&T Bank Notes**

During 2015, as part of the Sandtown merger, the Organization assumed notes payable to M&T Bank. The notes were secured by mortgages receivable and bore an interest at rates from 5.70% to 5.80% with various payment terms and maturity dates through 2033. The balance on the notes were paid in full during the year ended June 30, 2020.

**9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.**

**Rosedale Federal Savings and Loan Association**

During 2017, the Organization obtained a $1,150,000 construction loan for 9 townhouses in Baltimore City. The loan bore an interest at prime plus .50% (6.00% as of June 30, 2019), but not less than 4.00%, and was secured by the properties being constructed. The loan required interest only monthly payments until the maturity date of November 1, 2019, at which time all unpaid principal and interest was due. In October 2018, the note was extended to become due on February 1, 2020. The balance on the loan was paid in full during the year ended June 30, 2020.

During 2017, the Organization obtained a $1,000,000 revolving line of credit. Borrowings under the line of credit bore interest at prime plus 1% (6.50% as of June 30, 2019). The line of credit required interest only monthly payments until the maturity date of December 1, 2019, at which time all unpaid principal and interest was due. The balance outstanding under the line of credit was paid in full during the year ended June 30, 2020. Borrowing outstanding under the line of credit totaled $569,694 as of June 30, 2019.

**Small Business Administration Economic Disaster Relief Loan**

During April 2020, the Organization obtained a $500,000 loan for working capital to alleviate economic injury caused by the coronavirus pandemic (Note 19). The loan bears an interest of 2.75% per annum and monthly installment payments, including principal and interest, of $2,136 are to begin twelve months from the date of the note, with a maturity date thirty years from the date of the note.

**Department of Housing and Community Development**

On October 1, 2019, the Organization signed a commitment to enter into a ten-year, $500,000 note payable with the Department of Housing and Community Development at an interest rate equal to 4.50%. The note requires monthly payments of interest only in the amount of $1,875, with a balloon payment due and payable upon maturity in October 2029. Proceeds from the note are to be used for working capital to support the Organization's real estate development efforts in the Baltimore region. During the year ended June 30, 2020, proceeds from the note totaling $500,000 were expended for program-related and general expenditures relating to real estate development.

**Community Development Block Grant 42**

During November 2018, the Organization obtained a $300,000 loan for the construction/rehabilitation of 8 single family homes in Baltimore. Under the terms of the agreement, a portion of the debt will be forgiven as each home is settled. During the year ended June 30, 2020 and 2019, $0 and $73,125, respectively, was forgiven. The outstanding balance of the forgivable note totaled $216,750 and $148,125 as of June 30, 2020 and 2019, respectively.

### 9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.

**Maryland Economic Development Corporation – Revolving Note**

On September 11, 2019, the Organization entered into a one-year, $250,000 revolving note with Maryland Economic Development Corporation (MEDCO) at a fixed interest rate equal to 4% per annum. This revolving note was to be used for the purchase or renovation of property. This note was secured by deeds of trust from the properties acquired with the revolving note.

The Organization had the right to renew the loan for one year. Upon disposition or renovation of any property within thirty-six (36) months of the date of the corresponding revolving loan, the principal of, and all accrued and unpaid interest on, the revolving loan made in connection with such property was due and payable in full. The note was used to acquire one property during the year ended June 30, 2020 and was paid in full as of June 30, 2020.

### 10. PAYCHECK PROTECTION PROGRAM

In April 2020, the Organization entered into a loan in the amount of $629,869 with Severn Savings Bank, F.S.B. under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP), which was established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is eligible for forgiveness pursuant to terms and conditions of the CARES Act, which minimally requires that (1) the loan proceeds be used to cover eligible expenses, which include payroll costs, mortgage interest, rent and utilities, and (2) the number of employees and compensation levels are generally maintained. The portion of the loan that is not forgiven bears interest at 1.0% and is due in monthly payments over a period of five years. In October 2020, the SBA extended the deferral period for loan repayments to either (1) the date that the SBA remits the Organization's loan forgiveness amount to the lender or (2) if the Organization does not apply for loan forgiveness, 10 months after the end of the Organization's loan forgiveness covered period.

The Organization has elected to account for the forgivable loan as a conditional grant in accordance with ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Accordingly, the Organization recorded the initial loan proceeds as a loan payable and reduced the loan payable and recognized contribution revenue once the conditions were substantially met or explicitly waived. Management anticipates that the full loan will be forgiven as the Organization has used the loan proceeds to cover eligible expenses and has maintained the necessary employee and compensation levels for loan forgiveness in accordance with the CARES Act. Accordingly, the Organization recorded contribution revenue as eligible expenses were incurred. During the year ended June 30, 2020, $629,869 of Paycheck Protection Program contribution revenue was recognized in the accompanying consolidated statement of activities and the balance of the loan payable was reduced to zero.

## 11. REAL ESTATE SALES

During the years ended June 30, 2020 and 2019, the Organization sold 9 and 14 homes, respectively. Income and related costs on the sale of each home are not recognized until the home goes to settlement and the deed is transferred to the purchaser.

## 12. DONATED ASSETS AND SERVICES

Individuals volunteer their time and perform a variety of tasks that assist the Organization with its program, fundraising and administrative activities. Many of the Organization's donated services are not recorded in the accompanying consolidated financial statements, as these services are not susceptible to objective measurement or valuation.

The following amounts are included as donated property and donated goods or services in the accompanying consolidated activities as of and for the years ended June 30,:

| | 2020 | 2019 |
|---|---|---|
| Donated property - capitalized in homes inventory | $ 84,000 | $ - |
| Materials and equipment - capitalized in homes inventory | 110,402 | 149,220 |
| Donated services - individual support meeting requirements for recognition | 14,025 | 8,873 |
| Donated assets and services | $ 208,427 | $ 158,093 |

## 13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30,:

| | 2020 | 2019 |
|---|---|---|
| Purpose restrictions | | |
| Workforce development | $ 223,775 | $ 170,249 |
| Team builds | - | 25,500 |
| Capacity building | - | 118,154 |
| Homebuyer services | - | 23,935 |
| Home sponsorships | 405,100 | - |
| House construction and rehabilitation | | |
| Chesapeake Matched Savings Account | 505 | 505 |
| Total purpose restrictions | 629,380 | 338,343 |
| Time restrictions | | |
| Long-term contributions receivable, net | 393,541 | 663,202 |
| Net Assets With Donor Restrictions | $ 1,022,921 | $ 1,001,545 |

## 14. GAIN OR LOSS ON SALE OF HOMES

During the year ended June 30, 2020, one home was sold that was originally held as inventory to be sold within the House construction program. The proceeds were $100 and the carrying value of the home totaled $56,055, resulting in a loss of $55,955. Additionally, the Organization gave back 17 properties to the city of Baltimore that were originally in construction in progress, resulting in a loss of $239,566.

During the year ended June 30, 2019, one home was sold that was originally held as inventory to be sold within the House construction program. The proceeds were $126,235 and the carrying value of the home totaled $72,668, resulting in a gain of $53,567. Additionally, the Organization gave back 25 properties to the city of Baltimore that were originally in construction in progress, resulting in a loss of $46,838.

## 15. LEASES

The Organization leases its office and warehouse space under a non-cancelable operating lease agreement. During 2015, the lease agreement was renewed for a five-year period from January 1, 2015 to December 31, 2019. During August 2019, the lease agreement was renewed and extended until January 31, 2025, subject to annual increases in monthly rent payments.

In 2007, the Organization leased a building for its Dundalk ReStore location under a non-cancelable operating lease agreement. In August 2017, the lease agreement was amended to extend the lease term until June 30, 2023, subject to annual increases in monthly rent payments.

In 2013, the Organization leased a building for its Columbia ReStore location under a non-cancelable operating lease agreement. In February 2019, the Organization entered into a relocation and extension agreement with the lessor for a new Columbia ReStore location under a non-cancelable operating lease agreement that expires on June 20, 2026. Rent is subject to annual rent escalation based on the lease terms. Due to the coronavirus outbreak (Note 19), the lease agreement was amended effective April 15, 2020 to provide a three-month deferral of rent payments.

In 2015, the Organization leased a building for its Glen Burnie ReStore location under a non-cancellable operating lease agreement. The Organization entered into a new lease agreement commencing on August 15, 2020 (rent commencement date) and set to expire on August 14, 2028 and is subject to rent escalation bi-annually. In connection with this lease, the Organization was required to obtain a letter of credit, in the amount of $25,000, from Severn Savings Bank, F.S.B. This letter of credit, under the terms of the agreement, was viable up until the (a) rent commencement date, and (b) the receipt of payment by the landlord from the Organization. Both conditions were met, and the letter of credit will expire one year after the date of lease.

**15. LEASES – cont'd.**

In 2016, the Organization leased a building for its Timonium ReStore location under a non-cancellable operating lease agreement. Rent is subject to annual rent escalation based on the lease terms. The lease is for 63 months through March 2021. Subsequent to year-end, the Organization amended the lease agreement to extend the lease term until May 31, 2026.

Rent expense under month-to-month and non-cancelable operating agreements for the years ended June 30, 2020 and 2019 totaled $914,877 and $862,163, respectively.

The minimum annual payments under these leases are as follows:

| For the years ending June 30,: | | |
|---|---|---|
| 2021 | $ | 594,268 |
| 2022 | | 484,113 |
| 2023 | | 496,688 |
| 2024 | | 377,829 |
| 2025 | | 282,238 |
| Thereafter | | 142,145 |
| Total | $ | 2,377,281 |

**16. EMPLOYEE BENEFITS**

The Organization maintains a tax deferred annuity plan for its employees under IRC Section 403(b). Under the terms of the plan, the Organization will match 40% of the employee's deferral up to a maximum 8% of employee compensation. Contributions totaled $39,921 and $29,444 for the years ended June 30, 2020 and 2019, respectively.

**17. TRANSACTIONS WITH HABITAT INTERNATIONAL**

The Organization annually makes an election to remit to HFHI a tithe based on undesignated contributions. These funds are used to construct homes in economically depressed areas around the world. The Organization contributed $10,000 and $20,000 to HFHI for the years ended June 30, 2020 and 2019, respectively. Such amounts are included in program services expense in the consolidated statements of activities.

## 18. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year for general expenditures are as follows as of June 30,:

| | 2020 | 2019 |
|---|---|---|
| Current Financial Assets | | |
| Cash and cash equivalents | $ 5,450,356 | $ 1,604,833 |
| Contributions receivable - current portion | 916,717 | 791,581 |
| Mortgages receivable - current portion | 635,889 | 705,997 |
| Accounts receivable | 270,691 | 262,637 |
| Grants receivable | 123,092 | 101,300 |
| Total Current Financial Assets | $ 7,396,745 | $ 3,466,348 |
| Less: Net assets with donor restrictions for specified purposes | (629,380) | (338,343) |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | $ 6,767,365 | $ 3,128,005 |

The Organization is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to donors. Thus, certain financial assets may not be available for general expenditures within one year. As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

On a daily, weekly, and monthly basis, the Organization closely monitors and assesses short-term liquidity by estimating contributions receivable, releases of cash with donor restrictions, construction loans, property sales, and mortgages receivable likely to be received in the next 90 days.

The Organization has also established a revolving Working Capital fund for capital expenditures and program expenses ($1,140,000 and $920,000 in the years ended June 30, 2020 and 2019, respectively). These fund balances are closely monitored and replenished when unrestricted cash is available.

In Fiscal year 2020, the Organization received a bequest of $4,186,000. Of this amount, $1,576,514 was used to pay down existing debt. The Organization used the remaining funds to establish a revolving construction fund of $2,090,886, an operating reserve of $418,600, and a capacity building fund of $100,000.

**19. CORONAVIRUS**

In December 2019, a novel strain of the coronavirus (COVID-19) was reported and the World Health Organization declared COVID-19 a "Public Health Emergency of International Concern." COVID-19 is having significant effects on global markets, supply chains, businesses, and communities. Management believes the Organization is taking appropriate actions to mitigate the negative impact of COVID-19. The impact of COVID-19 on the Organization's future financial performance is uncertain, still developing, and could affect the Organization's results of operations.